

MEMORANDUM

To: Housing and Community Development Committee
From: Charlotte Caplan, Community Development Director
Date: April 10, 2007
Subject: Developing the Housing Trust Fund

This memo follows up the discussion at the February 13th HCD Committee meeting and proposes a plan for re-visiting the Housing Trust Fund's goals and priorities and amending the policy and detailed guidelines before the start of the new fiscal year.

Current Policy

The current policy for the Housing Trust Fund, established in 2000, is attached.

The fund has operated for six years, with considerable success and some problems. During this time, many changes have been discussed in the HCD Committee and in focus groups, but these have tended to concentrate on procedural details (e.g. evaluation criteria) rather than the fund's broader purpose. In this changing housing market, it is time for Council to look again at the fund's primary goal and determine priorities for different types of housing assistance. Once these are enunciated, staff can offer detailed program design options to achieve the desired results.

Suggested points for discussion

The following is suggested as a format and a starting point for discussion. There are many ways that goals and priorities can be expressed.

Primary Goal: To encourage the development of workforce housing that is affordable to low-income renters or low and moderate income buyers.

Income Targets: Renters <80% AMI; buyers <110% AMI.
(lower income limits are possible, but in that case it is unlikely that many local private sector developers will be able to participate)

Priorities: **#1.** Major rental developments or rehabs qualifying for LIHTC or other major external subsidy.

- Addresses area of greatest need per Strategic Plan
- Maximum leverage (bang for the buck).

Or Major rental developments and condominium homeownership developments.

- Wider choice of housing types
- Still provides high leverage.

#2. Assisting implementation of the 10-year Plan through permanent supportive housing for chronically homeless people.

#3. Construction of new homes for homeownership (infill or small subdivisions).

#4. Downpayment assistance for purchase of existing homes.

#5. City purchase of land for future development (land banking).

#6. New (small scale) rental construction or rehabilitation with below average rents for term of loan (not a great need in current market).

One Important process question:

- Either set-aside specific amounts for each priority – will ensure project mix meets target, but will take longer to get all funds committed, particularly if there are many priorities.
- Or commit funds to applications as they come in – gets money spent, does not necessarily result in desired mix.

Example of possible set-asides out of a \$600K appropriation:

- \$300K for one major development
- \$100K for homelessness (this must be in form of grants or deferred loans);
- \$150K construction loans for new homes for sale
- \$50K for downpayment assistance (deferred or forgivable loans)
- Fund land purchases as opportunities arise to buy key parcels.

Other issues for discussion:

- Should funds be used for improving local infrastructure to alleviate problems resulting from higher-density housing (must be grant so impacts value of fund)
- Green building/energy efficiency – to be required or just encouraged?
- Smart Growth - ditto? (affordable housing is usually denser anyway)
- Fund a Community Land Trust – probably not an option for FY 2007.

Uses that are not recommended:

- Rehab for resale, one house at a time (risky and not very cost-effective)
- Adding accessory apartments to existing homes (ditto)
- Homeowner rehab (too staff-intensive)
- Working with other than experienced developers (too risky)
- Eliminating income limits (well off people will always find the bargains first!)

Other Changes that have been suggested:

- Raise the various \$ limits to keep up with inflation – Recommended. Staff will incorporate into detailed program design after goals and priorities are established.
- Allow developer to exceed price limit if other subsidies are available to make home affordable (so HTF can be used by non-profits alongside shrinking CDBG & HOME subsidies) - Recommended
- Speed up approval process by eliminating either HCD consideration or Council approval of individual loans. No recommendation on this – just seeking guidance.

Longer term ideas (no early decision needed)

- Dedicate a new public revenue source – local Real Estate Transfer Tax is one option
- Seek major private donations to expand fund.
- Join with other jurisdictions to create a regional fund

**CITY OF ASHEVILLE
HOUSING TRUST FUND
POLICIES AND PROCEDURES
September 2000**

Purpose

The purpose of the City of Asheville Housing Trust Fund (the Fund) shall be to assist in developing and preserving affordable housing within the City of Asheville (the City).

Eligible projects

The following types of project will in principle be eligible for assistance:

- Acquisition of land or existing buildings for housing development
- Rehabilitation (for existing home-owners, for rental units, or for homeownership)
- New construction (for homeownership or rental), including infrastructure improvements.
- Second mortgage assistance to home buyers to buy assisted homes.

All projects must be located within the City limits.

Eligible Uses of Funds

Fund assistance must be used for documented expenses directly related to the project, including hard costs and soft costs invoiced by third parties, or loans to project beneficiaries. It may not be used for in-house costs (e.g. staff salaries, indirect agency costs), for developers fees, or for pre-development and planning costs. These costs may be part of total project expenses but must be drawn from another source.

Eligible Applicants

The following types of entity will be eligible to apply for assistance from the Fund:

- a) Private incorporated non-profit agencies with an IRS 501(c)(3) or similar designation
- b) For-profit corporations, partnerships, and sole proprietors
- c) Public non-profit agencies and governmental entities

The City may itself operate projects assisted by the Fund.

Individual home-owners or home-buyers will not be eligible to apply directly for funding, but may receive assistance through an agency program.

Form of Assistance

All assistance will be in the form of secured loans. Depending on the type of project, its financing needs, and the projected income level of the final beneficiaries, interest rates may vary from 0% to the current bank prime rate (see also “Loan Agreements” below).

Assistance may not be made in the form of grants, forgivable loans, or indefinitely deferred loans.

All loan repayments shall be returned to the Fund.

Project Selection

The City will issue a Request for Proposals each year for one or more types of eligible project, and will evaluate proposals using the affordable housing priorities established in its Consolidated Strategic Housing and Community Development Plan for 2000-2005 (the Plan), with particular emphasis on projects that build the City’s tax base, make efficient use of existing land and infrastructure, or provide for mixed use and/or mixed income development in keeping with the City’s Smart Growth policies.

Responsibility for Determining Policies and Project Selection

City Council shall approve the Fund policies and any subsequent major changes to the policies, and shall approve the individual projects recommended for assistance.

The City’s Housing and Community Development Committee shall be responsible for making recommendations to Council on the matters listed above. It will also approve the form of the Request for Proposals and have general oversight over the Fund. The Committee may invite technical advisors with expertise in finance and development to assist it, provided that such persons have no connection with any Fund applicant.

Administration

Day to day operations of the Fund will be administered by staff of the City’s Planning & Development Department and Finance Department under the general direction of the Housing and Community Development Committee.

Annual Report to Council

Staff will prepare an annual report no later than 90 days after the end of the fiscal year to be presented by the Housing and Community Development Committee to Council. The report will detail:

- a) The financial status of the Fund.
- b) A description of projects to which loans have been made or committed and their status.
- c) A summary of achievements (completed units) for the year and since inception of the Fund.

- d) Recommendations for project types to be assisted in the following fiscal year and any changes in policies and procedures.

Council may also request interim progress reports.

Loan Agreements

For each project, a loan agreement shall be executed between the City and the entity carrying out the project.

The term of the loans may be up to 30 years. Repayments may be amortized or partially or fully deferred for the term of the loan. Security will generally be in the form of a lien on the property being assisted, but other forms of security may be accepted or required at the discretion of City staff. The lien may be subordinated to other liens.

Specific loan conditions will depend on the type of project being assisted, including (but not limited to):

- Levels of rent and/or occupant income
- Time limits for completion of project
- Periodic written progress reports
- Access by City staff to project records
- Following Fair Housing and Equal Opportunity principles
- Prohibiting conflicts of interest

The City Manager, or his designee, is authorized to execute loan agreements on behalf of the City.

Prepared by The City of Asheville Community Development Division

Adopted by City Council
September 12, 2000

